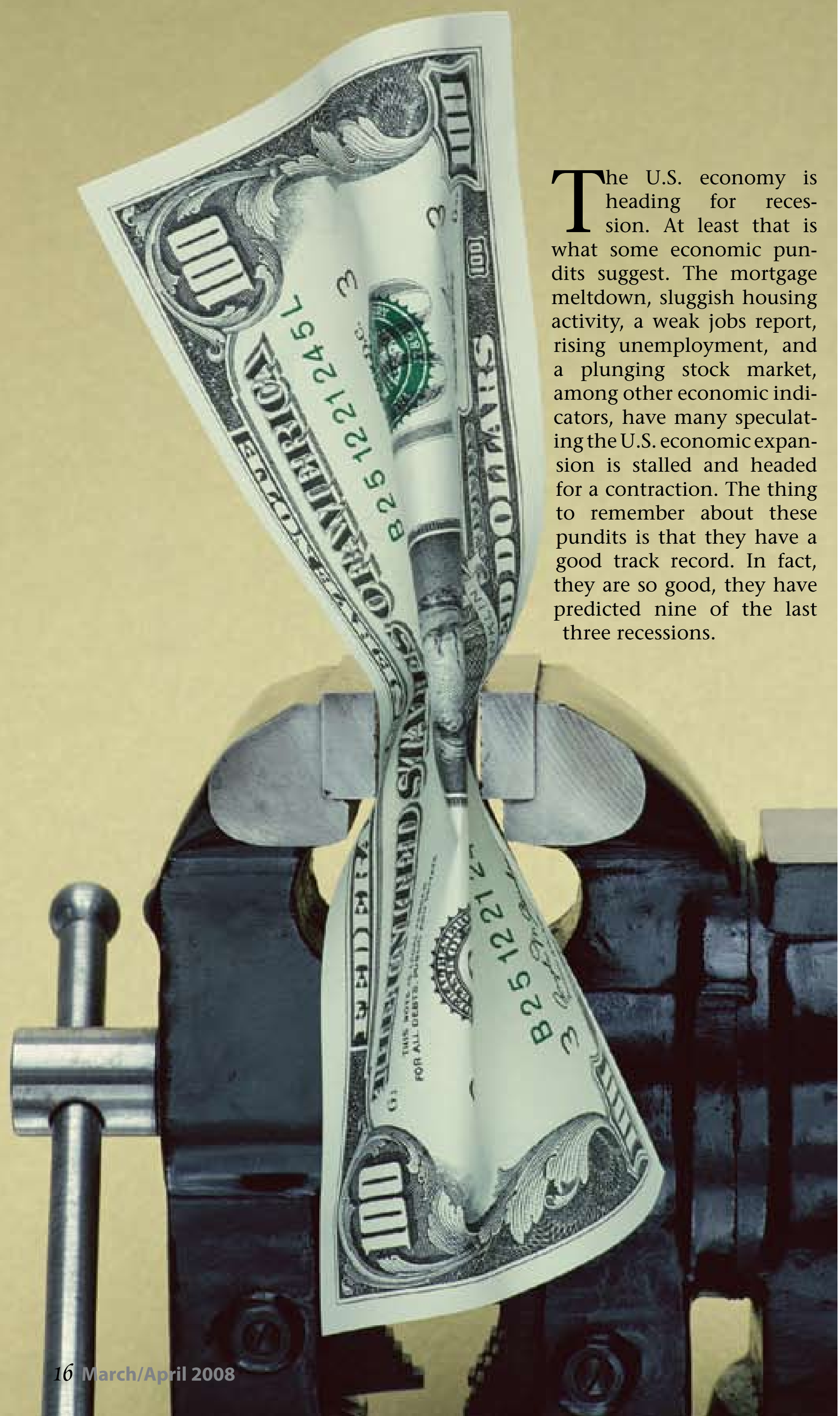
National Recession is Close



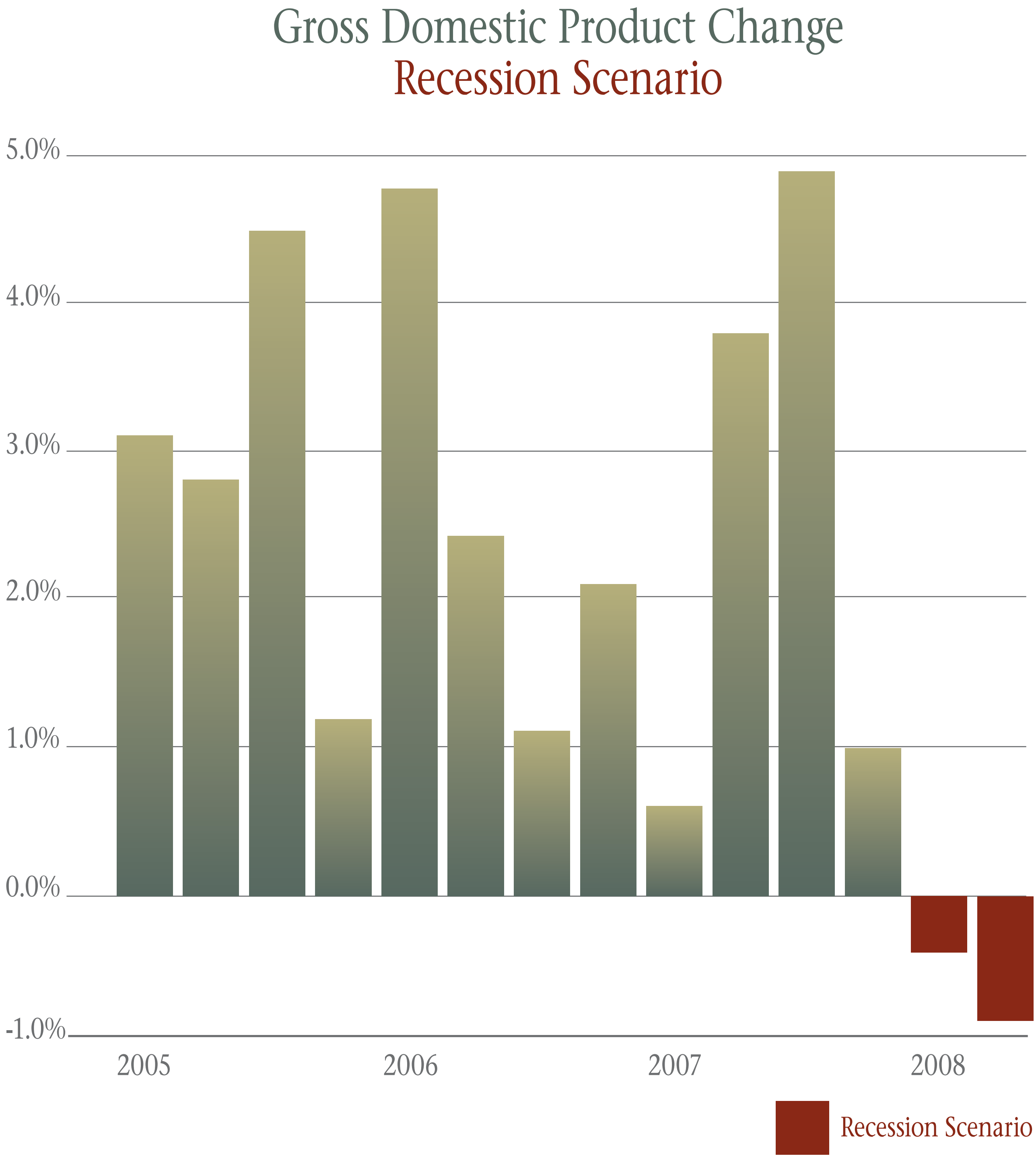
The U.S. economy is heading for recession. At least that is what some economic pundits suggest. The mortgage meltdown, sluggish housing activity, a weak jobs report, rising unemployment, and a plunging stock market, among other economic indicators, have many speculating the U.S. economic expansion is stalled and headed for a contraction. The thing to remember about these pundits is that they have a good track record. In fact, they are so good, they have predicted nine of the last three recessions.

If that last statement caused you to pause, it's because I'm being facetious. The bears are always in action, and now is as good a time for them as any. The odds are looking more and more like there might be a U.S. recession. But there is also the chance that they may make this the tenth of the last three recessions.

Now I'm not arguing that the U.S. economy is stellar and flourishing. Far from it. In fact, the bears have a good chance of getting this one right. But the part I have respect for—and its strength lies more in subjective feel than in objective indicators—is the U.S. economy over the past several decades has proven itself to be amazingly resilient, even in the face of economic hurdles that, in past decades, would have brought it down.

Although the gist of my argument hangs more on a subjective feel than objective data, there are some economic variables to rally around. Unemployment claims, though increasing, are still low and have a way to go before rising into troubling territory. The U.S. dollar's recent fall against foreign currencies is actually helping to make the price of American products attractive abroad, boosting U.S. exports. In fact, this last factor could be the line of defense between a U.S. recession or not. Strong global growth is needed to keep this variable growing.

I will say this in defense of the bears: If they do end up being wrong and the U.S. does avoid a recession, they won't have missed by much. In fact, even though the U.S. might avoid a recession on paper (which is officially two consecutive quarters of negative Gross Domestic Product percentage change), it could easily feel like a recession. The December U.S. jobs report was weak,



Source: Bureau of Economic Analysis
Note: Fourth quarter 2007 GDP not available at time of printing

and there isn't anything to suggest it will get stronger in the first half of 2008. Consumers are reading the negative news and could easily react negatively. However, we have seen consumers cry before all the way to the malls with their wallets open, so crying consumers don't guarantee anything. But if job losses become prevalent, that sends a more potent signal.

The tipping point of in-or-out-of recession is delicate. The first quarter of this year will be the teeter point. If we do miss a recession, it will be a near miss.